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First Quarter GDP (Advance)

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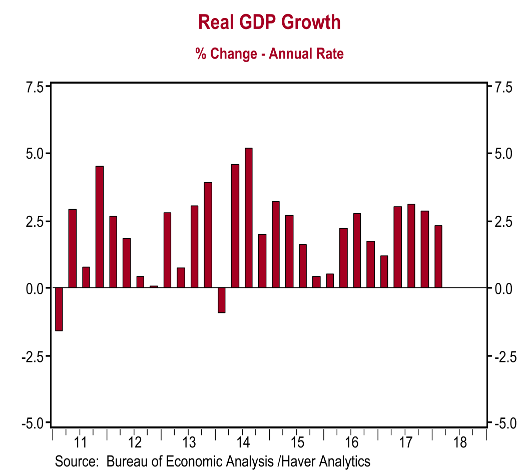
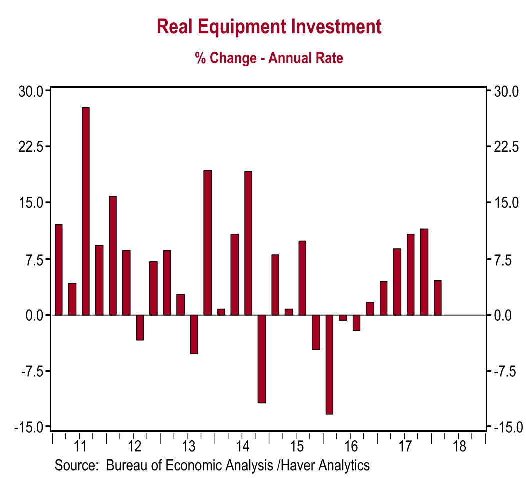
- The first estimate for Q1 real GDP growth is 2.3% at an annual rate, beating the consensus expected 2.0%. Real GDP is up 2.9% from a year ago.
- Business investment and personal consumption expenditures (PCE) made the largest positive contributions to Q1 real GDP growth. All major categories of GDP were positive for the quarter.
- Personal consumption, business investment, and home building, what could be called "core private GDP," grew at a 1.7% annual rate in Q1 and is up 3.0% from a year ago.
- The GDP price index increased at a 2.0% annual rate in Q1. Nominal GDP – real GDP plus inflation – rose at a 4.3% rate in Q1 and is up 4.8% in the past year.

Implications: The economy grew a little faster than the consensus expected in the first quarter, with real GDP up at a 2.3% annual rate. Although that pace is consistent with the Plow Horse Economy of mid-2009 through early 2017, the underlying trend has picked up in the past year. Real GDP is up 2.9% in the past year and – with tax cuts, deregulation, and loose monetary policy – we still expect real GDP to expand at a 3% pace this year and next, with more risk to the upside than the downside. The best news in today's report was that, for the second quarter in a row, every major component of fixed business investment was positive: equipment, commercial construction, and intellectual property. A faster pace of business investment should eventually help boost measured productivity growth, lifting the growth potential of the US economy even as the unemployment rate continues to decline. Nothing in today's report should discourage the Federal Reserve from raising short-term rates three more times this year, for a total of four moves in 2018, and continuing to trim its balance sheet. Nominal GDP expanded at a 4.3% annual rate in Q1, is up 4.8% in the past year, and up at a 4.4% annual rate in the past two years. All of these figures suggest short-term rates should be higher than the current range of 1.50 to 1.75%. The Fed's favorite measure of consumer inflation, the PCE deflator, increased at a 2.7% annual rate in Q1, matching the rate in the last quarter of 2017. The Fed's latest set of forecasts, released in March, predicts the PCE deflator will be up 1.9% in 2018. The PCE deflator will now hit that target even if it increases at only a 1.6% annual rate for the rest of the year. In other words, we think the Fed is underestimating inflation. For the second quarter of 2018, look for faster economic growth, which means a continuation of strong profit reports deeper into 2018.





1st Quarter GDP *Seasonally Adjusted Annual Rates*	Q1-18	Q4-17	Q3-17	Q2-17	4-Quarter Change
Real GDP	**2.3%**	2.9%	3.2%	3.1%	2.9%
GDP Price Index	**2.0%**	2.3%	2.1%	1.0%	1.9%
Nominal GDP	**4.3%**	5.3%	5.3%	4.1%	4.8%
PCE	**1.1%**	4.0%	2.2%	3.3%	2.6%
Business Investment	**6.1%**	6.8%	4.7%	6.7%	6.1%
Structures	**12.3%**	6.3%	-7.0%	7.0%	4.4%
Equipment	**4.7%**	11.5%	10.8%	8.8%	8.9%
Intellectual Property	**3.6%**	0.9%	5.2%	3.7%	3.3%
Contributions to GDP Growth (p.pts.)	**Q1-18**	**Q4-17**	**Q3-17**	**Q2-17**	**4Q Avg.**
PCE	**0.7**	2.8	1.5	2.2	1.8
Business Investment	**0.8**	0.8	0.6	0.8	0.8
Residential Investment	**0.0**	0.5	-0.2	-0.3	0.0
Inventories	**0.4**	-0.5	0.8	0.1	0.2
Government	**0.2**	0.5	0.1	0.0	0.2
Net Exports	**0.2**	-1.2	0.4	0.2	-0.1

Source: Bureau or Economic Analysis